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E.O. 12958: DECL: 09/16/2019

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SUBJECT: DEPUTY SECRETARY LEW'S SEPTEMBER 14, 2009 MEETING
WITH ISRAELI FINANCE MINISTER YUVAL STEINITZ

¶1. (U)Classified by NEA Acting Assistant Secretary Ronald Schlicher, reasons 1.4 (b) and (d).

¶2. (U) Meeting date, time and location: September 14, 2009, 3:15 p.m., Washington, D.C.

¶3. (U)Participants:

U.S.

Deputy Secretary Lew
EEB Acting Assistant Secretary Dave Nelson
NEA Deputy Assistant Secretary Maura Connally
Andrew Lentz, NEA Notetaker
Jennifer Butte-Dahl, D(L) Notetaker
Christopher Runyan, D(L) Notetaker

ISRAEL

Finance Minister Yuval Steinitz
Ambassador Michael Oren
Account General Shouky Yehoshua Oren
Chief of Staff David Sharan
Senior Advisor Michal Finkelstein
Israeli Embassy CFO Zvi Chalamish
Israeli Embassy Political Counselor Oren Anolik
Israeli Embassy Economic Minister Asaf Vitman

¶4. (C) Summary: Israeli Finance Minister Yuval Steinitz used his meeting with Deputy Secretary Lew to emphasize Israel's interest in keeping the pressure on Iran, maintaining its strategic global edge in high-tech research and development, and requesting U.S. support for Israel's bid for OECD accession. The Deputy Secretary stressed the need for Israel to address intellectual property right (IPR) protections, particularly in its pharmaceutical sector.
End summary.

Iran

¶5. (C) Steinitz stressed that time is running out on confronting Iran's nuclear threat. "We are almost at the last chance" for diplomacy, he said, and that it may be necessary to "wave sticks to show our seriousness." He urged the U.S. to pursue stronger sanctions on Iran as a way to increase pressure. Deputy Secretary Lew responded that the U.S. and Israel share a common concern about Iran and that Israel should have no ambiguity about the U.S. position. The Deputy Secretary stated that the U.S. intends to maintain current economic sanctions and that a decision to escalate will depend on the progress of diplomatic initiatives. "Waving sticks" comes with its own set of consequences, the Deputy Secretary cautioned. While the U.S. is aware that there is not an infinite amount of time for dialogue, he said, we must be willing

to give the process time to produce results.

Israeli Economy

¶ 6. (C) Steinitz expressed appreciation for U.S. loan guarantees as a sign of U.S. confidence in Israel. Steinitz reported that Israel may not need to use loan guarantees because it was only mildly affected by the global financial crisis, an analysis that he shared with Federal Reserve Chairman Bernanke during a previous meeting this week. While pension funds and other non-bank institutions stopped lending for a few months - and are now fully recovered - Israeli banks continued to provide credit throughout the crisis. Steinitz stated, however, that shocks to the U.S. financial system have limited the flows of capital for investment in Israel's high-tech sector, which relies heavily on U.S. venture capital for research and development (R&D). The risk to Israel - and to the U.S., Steinitz offered, given the history of cooperation between Israeli and U.S. firms such as Google, Intel, Motorola and HP - is that Israel will lose its strategic edge globally in high-tech R&D to nations like India. He recommended that the U.S. and Israel form a joint committee of experts, either as part of the Joint Economic Development Group or a separate committee, to address shared interests in R&D, such as by developing joint research centers and identifying innovative financial mechanisms for investment. Steinitz mentioned that he already has discussed this idea with the leadership of NICE Systems, whose director could be tapped to lead such a committee. Deputy Secretary Lew responded that we would study the request.

Intellectual Property Rights (IPR)

¶ 7. (C) Steinitz seemed unaware of our concerns about IPR when raised by Deputy Secretary Lew and EEB acting A/S Dave Nelson. He deflected the issue saying instead that he would appreciate U.S. support against political objections to Israel's accession to the OECD. Deputy Secretary Lew responded that Israel can count on U.S. support against specious political arguments, but that U.S. concerns over Israel's lack of IPR protections mostly in the pharmaceutical sector are real and Israel needs to address them. Israel should not give countries who intend to oppose Israel's accession on political grounds the opportunity to hide their opposition behind a substantive issue such as IPR protections, Lew warned. Acting A/S Nelson added that lack of IPR protections also could affect Israel's access to foreign direct investment in its pharmaceutical and high-tech sectors.

Palestinian Economic Development

¶ 8. (C) Steinitz reiterated the GOI's and his personal commitment to Palestinian economic development, stating as proof that "economic peace" was a chief recommendation of the transition team he chaired. He said that Israel already has taken significant steps to improve access and movement, which he claimed has helped the Palestinians realize five to six percent GDP growth this year. Unlike the previous Israeli government, he said, the government of PM Netanyahu is intent on helping PM Fayyad and the Palestinian Authority, but that real improvement in Palestinian quality of life likely would take one to two years to manifest. He complained that instead of getting credit, Israel is blamed for what is left to do, and the Palestinians are not making reciprocal gestures to stop incitement and

improve security capacity fast enough. Lew acknowledged the steps that Israel has taken as a positive trend, and emphasized the U.S. government's confidence in the reforms and transparent institutions that Palestinian Authority Prime Minister Salam Fayyad has undertaken.

CLINTON